

# From A&P to Wal-Mart: The Evolution of the Supermarket Industry

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## Highlights

- 1 A&P and the Chain Store Revolution
- 2 Introduction of the Supermarket Format
- 3 Post-war expansion
- 4 Saturation, Recession & Differentiation
- 5 Bandwidth, Superstores & IT
- 6 Wal-Mart, Supercenters, and Extreme Value

# The Chain Store Revolution (1913 – 1930)

- In 1900, people shopped at numerous specialty stores
- Stores were sole proprietorships
  - Located close to customers, delivered, & sold on credit
- A&P changed the game
  - introduced standardization, scale, & scientific management
- Their “economy” format was cash & carry
  - Per store yearly revenues averaged 40K
- A&P was integrated into both distribution & manufacturing
  - Emphasized private labels, relied on volume

# Major Cost Advantages of Chains

- Fewer services & no credit
- Careful site selection
- Scale, & Specialization
- Logistics & Distribution
- Quality Control & Inventory Management
- Coordination
- Buying Power

Not surprisingly, the chains grew quickly. . .

Year	A&P	Kroger	Am. Stores	Safeway	F. National	$C_5$
1919	4,224		1,175			4.2%
1920	4,600	799	1,243			5.6%
1921	5,200	947	1,274			6.3%
1922	7,300	1,224	1,375	118		7.1%
1923	9,300	1,641	1,474	193		8.0%
1924	11,400	1,973	1,629	263		9.3%
1925	14,000	2,599	1,792	330		11.5%
1926	14,800	3,100	1,982	673		13.6%
1927	15,600	3,564	2,122	840	1,681	16.9%
1928	15,100	4,307	2,548	1,191	1,717	20.4%
1929	15,400	5,575	2,644	2,340	2,002	24.5%
1930	15,700	5,165	2,728	2,675	2,549	27.6%
1931	15,670	4,884	2,806	3,264	2,548	29.3%
1932	15,427	4,737	2,977	3,411	2,546	28.8%
1933	15,131	4,400	2,882	3,306	2,705	
1934	15,035	4,352	2,859	3,228	2,653	
1934	14,926	4,250	2,826	3,330	2,623	25.7%
1936	14,746	4,212	2,816	3,370	2,556	
1937	13,314	4,108	2,620	3,327	2,473	

. . . and attracted some unwanted attention (Robinson-Patman)

# The Birth of the Supermarket (1930-1950)

- Alongside chain diffusion, big structural changes in U.S. . . .
- Urbanization, rising incomes, refrigeration & the automobile
- People didn't need to walk to store (or go everyday)
- Radio helped build national brands
- Enter the supermarket



# The First Supermarkets

- Michael Cullen opened his first King Kullen supermarket in NYC
- 10 times larger than an A&P, stocked national brands, priced aggressively, and advertised
- Of course, these “cheapies” were pretty crude...
  - Located in abandoned warehouses or factories
  - Sited in low rent (warehouse) districts
  - Featured primitive shelving & self-service
- ...but they were cheap (about 13% below chains)

# Early Supermarkets

- The early supermarkets were part club store, part superstore, part deep discounter
  - King Kullen also sold tires and vacuum cleaners
  - 34% of Big Bear's volume was non-food
- They did 10 to 20 times the store volume of the chains
  - King Kullen made over \$1 million per store in 1933 (about \$14m today)
  - Big Bear made about \$3.8 million
- Growth was slow at first, but supermarkets took off after WW II



Year	Sales Cutoff	Supermarkets	Sales (M)	Share of Grocery	
				Stores	Sales
1935	302.9	386	202	0.1	3.2
1939	287.5	1,699	772	.4	10.0
1948	635.6	5,600	5,654	1.6	22.8
1954	703.4	10,506	14,214	3.8	41.3
1958	747.0	15,282	23,562	5.9	53.9
1963	762.9	21,167	31,484	8.6	59.9
1967	825.7	23,808	43,433	10.9	66.7
1972	1,000.0	27,231	64,960	14.0	69.6
1977	1,515.0	30,831	113,111	17.2	75.0
1982	2,265.6	26,640	175,655	14.4	74.5

# Baby Boom & “Modern” Stores (1950 – 1970)

- The post war boom was a period of steady growth.
- The smaller chains were the earliest adopters, but even A&P started converting to supermarkets by the late 1930s
- Some rolled out a second line (e.g. Kroger opened Pay n' Takit)
- The cheapies began to disappear as firms traded up
- The “modern” supermarket was born, as stores started adding services
- Shopping center locations replaced free-standing units.

# Safeway in the 1950s

- By the 1950s, firms were rolling out stores we'd recognize today...



# Saturation & Acquisition (1960 – 1970)

- In the 50s, rising incomes and the growth of suburbs ensured a steady supply of new locations
- The supermarket boom was led by regional chains. . .
- . . . but as markets became saturated, they turned to acquisition
- From '49 to '58, 83 companies bought 415 chains (2,238 stores)

	Aquisitions	Stores Acquired	Sales when Acquired
Amercian Stores	5	93	\$34,443
Colonial Stores	10	99	\$121,906
Food Fair	6	67	\$107,731
Grand Union	15	128	\$128,417
Jewel Tea	2	43	\$56,234
Kroger	5	130	\$174,064
Lucky Stores	4	56	\$72,612
National Tea	24	485	\$251,612
Safeway	25	67	\$33,016
Winn-Dixie	11	306	\$221,070
Total	107	1,474	\$1,201,104

# Anti-Trust Activity

- Merger was a tool for mid-sized chains to grow
- The “acquisition wave” slowed in the 1960s due to pressure from the federal government
- The FTC put the major chains on notice
  - Took action against National Tea & Kroger in early 60s
- Key case was DOJ vs. Vons in 1966
- Food distribution merger guidelines established

# Recession, differentiation & club stores (1970-1980)

- When saturation met recession, supermarkets turned to new formats.
- Club stores and limited assortment were both introduced in the 70's
  - Clubs: Price ('76), Costco ('83), Sam's ('83)
  - LA: Aldi ('76), Save-A-Lot ('77)
- At the other end of the spectrum...natural foods and superettes
  - Whole Foods (78), Trader Joes (66)
- Salad days for small to mid-sized chains

# The Waning National Chain

Year	All	Chain Type					
		National	Regional	Sectional	Local	Wholesaler	Other
1948	34.5	18.7	3.9	3.1	5.6		3.2
1954	38.8	19.1	6.3	2.9	7.6		2.9
1958	46.7	20.9	8.7	4.5	11.1		1.5
1963	49.4	18.8	9.6	6.6	11.4	1.4	1.6
1967	51.4	16.2	8.5	6.6	13.4	1.6	5.1
1972	55.9	15.4	9.2	11.7	11.2	1.5	6.9
1977	58.7	15.4	10.1	11.1	14.5	1.3	6.3
1982	61.5	12.2	11.1	10.8	20.2	3.5	3.7
1987	63.5	13.3	12.7	6.8	23.5	2.7	4.5

# The Information Age

- The 1970s introduced a host of new store formats, but the most significant innovation was the introduction of the UPC code and scanning registers.
- The first bar code scanner was installed in 1974
- By 1986, 50% of stores had them
- Scanners gave retailers the same information as manufacturers
- IRI was founded in 1978, beginning the era of test marketing and consumer panels. . .
- . . . and laying the groundwork for product proliferation
- . . . and a renewed focus on logistics

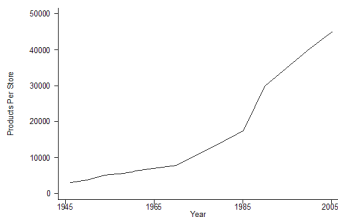
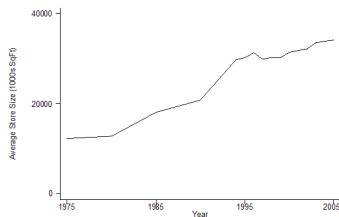


# Bandwidth, Superstores & IT (1980-1995)

- From 1974 to 1990, the number of products carried per store went from 9,000 to 30,000
- Store size grew steadily at 1000 sqft per year
- The diffusion of scanners meant access to scanner data...
- ...and a greater need for coordination
- Advanced back-end IT (e.g. EDI, JITD) shifted the focus back to large chains
- The superstore/extended format took off, as chains added both products and services.

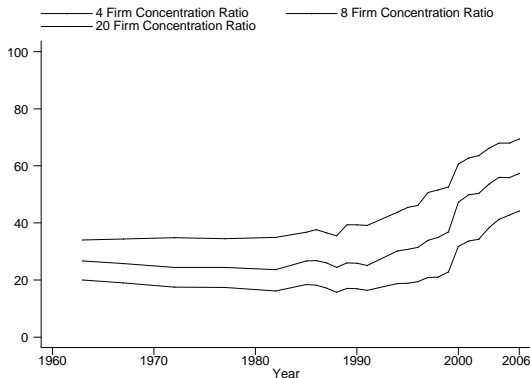
# The End of Conventional Stores

	1980	1982	1984	1986	1988	1990	1992	1994
Conventional	73.1	47.9	49.7	47.4	42.9	35.3	30.3	27.4
Superstore	17.7	28.9	28.3	27.5	30.2	33.5	34.3	37.0
Food/Drug Combo	4.0	8.3	8.0	8.0	8.6	11.2	15.5	17.8
Warehouse or L.A.	4.2	14.9	11.9	12.3	12.2	12.6	12.2	9.5
Superwarehouse	1.0		1.7	3.2	3.9	4.8	5.1	5.6
Hypermarket			0.4	1.6	2.2	2.6	2.5	2.7



# Wal-Mart & the Mega-Mergers

- The 1990's brought the entry of Wal-Mart
- From 1988, Wal-Mart rolled out SuperCenters at a breakneck pace
- Wal-Mart's steady growth triggered a wave of "mega-mergers", sharply increasing national concentration



# Wal-Mart: The 800 (or 80?) Pound Gorilla

- Wal-Mart has quickly shot up the ranks
  - But its impact is probably overstated.
- First, they don't really control 23% of the market...more like 10%
- That's still a lot, but
  - They don't have much presence in the major cities
  - Only 62% of their SCs are in MSAs (major SMs: 83%)
  - Market share in small markets is double that in large
  - Limited assortment stores are stealing their core business
  - Their rivals' stock is outperforming them!
- Of course, bet against Bentonville with your own money...

# Wal-Mart versus Other Chains

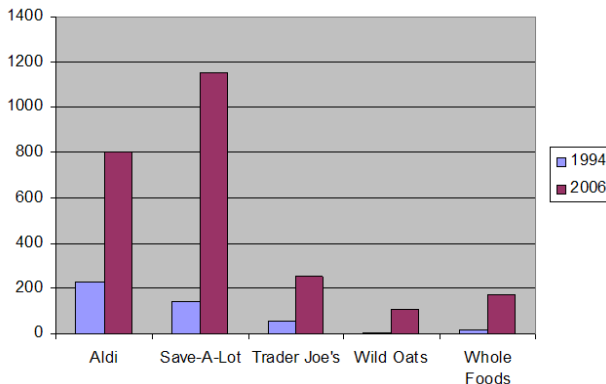
	% Stores in MSAs	Avg Share in MSAs
Wal-Mart	62.4	31.5
Supervalu	89.0	9.3
Safeway	87.1	19.3
Publix	95.5	25.6
Kroger	83.7	23.4
Winn-Dixie	85.4	13.3
Lowes	71.6	7.9
Meijer	90.3	18
Hy Vee	51.5	31.8
Harris Teeter	91.4	9.3
A&P	97.9	6.2
Food Lion	68.4	15.4
H.E. Butt	81.8	43.2

# Wal-Mart in Top Metro Markets

MSA Name	Rep. Share	"Real" Share	MSA Name	Rep. Share	"Real" Share
New York	1.3	0.5	Pittsburgh	19.3	7.7
Los Angeles	1.9	0.8	Portland	6.7	2.7
Chicago	4.0	1.6	Cincinnati	11.6	4.7
Washington	3.1	1.3	Sacramento	4.0	1.6
San Francisco	0.7	0.3	Kansas City	24.1	9.7
Philadelphia	1.9	0.8	Milwaukee	7.7	3.1
Boston	3.0	1.2	Orlando	30.7	12.3
Detroit	3.0	1.2	Indianapolis	26.5	10.6
Dallas	35.3	14.1	San Antonio	24.5	9.8
Houston	29.2	11.7	Norfolk	26.9	10.7
Atlanta	22.6	9.0	Las Vegas	25.9	10.4
Miami	11.9	4.8	Columbus	15.3	6.1
Seattle	3.5	1.4	Charlotte	23.8	9.5
Phoenix	21.3	8.5	New Orleans	39.6	15.9
Minneapolis	6.1	2.5	Salt Lake City	24.0	9.6
Cleveland	5.3	2.1	Greensboro	31.4	12.6
San Diego	0	0	Austin	19.7	7.9
St. Louis	15.0	6.0	Nashville	27.4	11.0
Denver	15.0	6.0	Providence	3.8	1.5
Tampa	21.3	8.5	Raleigh/Durham	15.6	6.2

# Growth of Extreme Value Operators

- Another interesting trend has been the growth of “Extreme Value” formats
- The middle 70 is getting squeezed from both ends...



- The next 10 years should be interesting!

“Today in a city of any significant size, a grocery shopper can be served by a high-quality supermarket, a price-emphasis supermarket, a true discount store, a ‘mom and pop’ store, a quick-shop operation, or a large integrated shopping center.”

“In the present inflationary period of ‘tight money’, the industry is tending to return to discount operations and lowered-margin, one-stop shopping centers. But even now, the supermarkets stressing quality, rather than price, are continuing to prosper and grow.”